

**Strategies and approaches for scaling up long-term finance  
Submission by the United States**

**Introduction**

Mobilizing long-term climate finance is a major priority for the United States. Financial resources play an important role in enabling developing countries to achieve a transition to low-carbon, climate resilient (LCCR) development models. We have lived up to our fast start finance commitment, and we are now working to collectively mobilize \$100 billion in climate finance per year by 2020, from a wide variety of public and private sources, to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation.

Developed countries fulfilled the “fast start finance” commitment made in the Copenhagen Accord by providing more than \$30 billion in new and additional public resources for climate action. The United States provided a total of \$7.4 billion<sup>1</sup> in fast start finance, consisting of more than \$4.7 billion of congressionally appropriated, grant-based assistance, more than \$1.9 billion of development finance, and \$750 million of export credit finance. Based on the annual average, we increased our annual appropriated climate assistance fourfold and increased our dedicated adaptation assistance nine-fold since 2009.

Since the conclusion of the fast start finance period, we have turned our attention to the goal of collectively mobilizing \$100 billion in climate finance per year by 2020. As we design strategies and approaches for long-term finance – which encompasses mobilization of private as well as public flows – we must build upon the significant developments and lessons of the fast start period.

Viewed holistically, “climate finance” is a simple term for a complex set of interventions ranging across many sectors and types of investments. Climate finance encompasses clean infrastructure finance, climate-resilient development assistance, sustainable agricultural supply chains, and so on. The variety of financing tools and policies needed to enable mitigation and adaptation activities is vast and the range of actors that supply the necessary financing is diverse. Strategies and approaches for scaling up climate finance must therefore recognize the diversity of interventions required rather than seeking overly simplified solutions focused on a particular delivery channel, sector, or financing approach. The United States believes that all the tools in the climate finance toolbox are needed to address the challenge.

Both public and private finance will play a critical role. Strengthening public finance continues to be vital, especially in areas where private investment is more challenging to mobilize, such as for adaptation and for mitigation in less developed markets. Successfully mobilizing financing for a broad range of climate-friendly infrastructure requires combining a limited but robust core of public money with smart policies – supported by both developed and developing countries alike – to catalyze maximum private investment where possible.

This submission describes U.S. views on strategies for mobilizing climate finance, including the barriers to scaling up investment; the strategies needed to address those barriers; and the institutions that can

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<sup>1</sup> The totals reported here reflect slight revisions to previously reported levels, based on updated information received since the release of the November 2012 Fast Start Finance report.

deploy the necessary tools. It then describes the approaches that the United States is utilizing to implement these strategies, including as they relate to adaptation and the phase-out of public support for high-carbon infrastructure.

### **Strategies for mobilizing climate finance**

While public finance is essential, there are several reasons why an exclusive focus on public funds is not will sufficient. First, the scale of the climate challenge means that public funds alone will never be sufficient to adequately and efficiently address climate change. Indeed, the resources managed by private investors dwarf those available for public expenditure on climate assistance. In 2011, Official Development Assistance from OECD countries amounted to \$134 billion while assets under management of conventional global funds, including pension funds, mutual funds, and insurance companies, amounted to \$80 trillion.<sup>2,3</sup> In principle, the global capital markets have the size and depth to contribute to the climate finance investment challenge.

Second, a large share of climate-friendly infrastructure projects (particularly for mitigation) can deliver a financial return and therefore can be attractive to private investors. Low-carbon energy infrastructure, for example, is a good match for conventional global funds looking for long-term investments to balance their long-term liabilities to pensioners, insurance policy holders, and other beneficiaries.

Finally, more efficient leveraging of private investment will free up our public resources to be used in areas and sectors where the private sector is less likely to invest, particularly in areas like adaptation for the most vulnerable and least developed.

Although the challenge of mobilizing climate finance is inherently complex, the barriers and solutions are relatively well understood. A review of existing studies by think tanks, private investors, foundations, and public institutions shows strong convergence on two key barriers to private investment in green infrastructure in developing countries and the key interventions where public resources and interventions can be called upon to help overcome these barriers.

- The first barrier is the difference in financing costs (e.g. debt and equity), often further compounded by fossil fuel subsidies, between low-carbon and high-carbon technologies and infrastructure.
- The second barrier is the bundle of risk factors that limit foreign direct investment in developing countries. These include country risks applicable to all investment types (e.g. weak investment climate, uncertain property rights, currency risk, political risk) as well as risks specific to climate investments (e.g. untested technologies and systems, instability of regulatory incentives for LCCR investment).

The net result of these barriers is that financing for LCCR investments is either too costly or not available at all in many developing countries. Strategies and approaches to scale up climate finance must aim to address these barriers in a systematic and integrated manner.

Broadly speaking, developed countries can employ four strategies to help developing countries address these barriers:

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<sup>2</sup> OECD DAC members' net ODA. See: <http://www.oecd.org/dac/stats/tab01e.xls>.

<sup>3</sup> TheCityUK's *Fund Management November 2012*. See: <http://www.thecityuk.com/assets/Uploads/Fund-Management-2012.pdf>.

1. **Grant-based technical assistance:** Any country wanting to attract the necessary investment into LCCR infrastructure needs to create a domestic policy environment that encourages and enables such investments. Developed countries can provide technical assistance to help developing countries strengthen domestic policy frameworks and build the capacity and know-how to improve their own enabling environments. In the clean energy sector, for example, this may include implementing regulatory measures such as feed-in tariffs and energy efficiency regulations, energy sector reform, and surveying energy resources and grid infrastructure needs. For adaptation, this may include integrating adaptation into national planning and development policies, including land use reform or floodplain management.
2. **Risk mitigation tools:** Even with the right regulatory incentives in place, it can be difficult to attract both foreign and domestic investors looking to support new technologies in emerging markets. Developed countries, working through their development finance institutions (DFIs) and other public finance vehicles, can offer risk reduction products that are unavailable or otherwise too expensive to access domestically. These include political risk insurance, regulatory risk insurance, first loss equity, partial risk guarantees, project preparation assistance, and currency hedging facilities.
3. **Low-cost, long-tenor debt financing:** Clean energy and energy efficiency projects are sensitive to financing costs, particularly the cost of debt, especially because of their high upfront capital requirements. Working with relatively new technologies in developing markets where interest rates are high, project developers often struggle to access the large amount of low-cost financing they require. Developed countries, benefitting from their low cost of borrowing, can help channel low-cost, longer term loans not otherwise available on a commercial basis.
4. **Viability gap financing:** Where the above approaches are not sufficient, and residual risks remain, it will be necessary to provide concessional financing to address the remaining viability gap between low-carbon and high-carbon technologies and between high-resilient and low-resilient development practices. This can be delivered in many forms including grants and concessional loans and tax credits, as well as indirectly through the elimination of fossil fuel subsidies.

The continued use of these four strategies through existing institutions is necessary for scaling up long-term climate finance. For example, the multilateral development banks (MDBs) and bilateral DFIs are expanding low-cost, long-tenor lending to LCCR projects and thereby attracting significant private sector co-financing. The MDBs and DFIs are also expanding their toolkit of risk mitigation instruments. The multilateral climate funds – e.g. the Global Environment Facility (GEF), the Climate Investment Funds (CIFs), and eventually, the Green Climate Fund (GCF) – are gradually increasing the availability of financing to close the viability gap. For adaptation, the Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF) cover the full, agreed costs of adaptation and the Pilot Program for Climate Resilience (PPCR) funds the adaptation element of development investments. Finally, bilateral aid agencies are delivering significant technical assistance and capacity-building support to strengthen enabling environments for LCCR investment in developing countries

At the same time, strategies for mobilizing finance in and to developing countries will be incomplete without developing countries doing their part to strengthen domestic enabling environments. The “push factor” led by developed countries must be complemented by the “pull factor” of developing country policies to attract international public support and foreign direct investment. While it is often said that ambition depends on financial support, the reverse is also true – the ambition of developing countries and their ability to construct domestic programs that attract investment will drive climate finance flows

into countries. These policies and incentives must address both climate-specific factors, such as technology risk and policy risk, as well as non-climate related factors, such as currency risk, legal risks, and political risks.

Climate-specific risk factors require the introduction of domestic policies with a sufficient degree of long-term certainty about regulatory structure and incentives to provide private investors the confidence they need to make LCCR investments. Elimination of fossil fuel subsidies, carbon pricing, vehicle efficiency standards, appliance standards, and feed-in tariffs for renewable energy are all examples of enabling conditions in various sectors. Non-climate specific risk factors require improving the general investment climate, including through the development of legal systems that promote contract enforceability; good governance practices; implementation of strong fiscal policies; support for robust and accountable institutions; and so on. Ultimately, finance will flow and investment patterns will shift as a result of the domestic policies and incentives developing countries establish. For an illustration of how such factors affect flows to countries within a region, see Climatescope, an index developed by the InterAmerican Development Bank and Bloomberg New Energy Finance that assesses the investment climate for climate-related investment in 26 countries in Latin America and the Caribbean.<sup>4</sup>

### **U.S. approaches for mobilizing climate finance**

The United States is committed to playing a leadership role in deploying tools in each of the four areas described above to help achieve LCCR transformation change across the globe. We are using the full range of public institutions – bilateral, multilateral, development finance, and export credit finance – to mobilize finance and invest strategically in building lasting resilience to unavoidable climate impacts; to reduce emissions from deforestation and land degradation; and to support low-carbon development strategies and investment in the transition to a sustainable, clean energy economy. We work to ensure that our capacity-building and investment support is efficient, effective, innovative, based on country-owned and country-driven plans, and focused on achieving measurable results, with a long-term view of economic and environmental sustainability.

The following sections provide examples showing how the United States is working to implement the four financing strategies above in order to mobilize long-term climate finance.

#### Technical assistance

The U.S. Agency for International Development (USAID) leads on delivery of targeted technical assistance to cultivate stronger enabling environments in developing countries, providing support to more than 70 countries during the fast start period. Support is driven by country needs and it focuses on achieving measurable results with a long-term view towards economic and environmental sustainability. The U.S. Department of State, the U.S. Millennium Challenge Corporation (MCC), and other U.S. Government agencies also provide funding for targeted technical assistance, as do multilateral climate change funds to which the United States is a major contributor.

During the fast start finance period, the United States launched the Enhancing Capacity for Low Emission Development Strategies (EC-LEDS) program. EC-LEDS provides targeted technical assistance to support developing countries' efforts to pursue low-emission, climate-resilient economic development and growth. The program now has official partnerships with more than twenty countries. Going forward, the

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<sup>4</sup> Climatescope 2012. See: <http://www5.iadb.org/mif/climatescope/2012/>

EC-LEDS program will continue to support partner governments in both the development and implementation of their LEDES, using a country's own strategy to guide investments in actionable projects and programs that reduce long-term emissions trajectories.

The LEDES Global Partnership, an initiative the United States helped successfully launch in 2011 to enhance coordination, information exchange, and cooperation among programs and countries working to advance low emissions growth, brings together more than 100 government and international institutions. One aspect of this partnership is the LEDES Expert Assistance on Finance that provides targeted technical assistance on financing strategies, policies, or programs in support of LEDES.

The United States also provides targeted technical assistance to developing countries as they work to scale up public and private finance for adaptation. One effort that highlights our approaches in this area is USAID's Coastal Community Adaptation Program (C-CAP), a five-year, \$23.6 million project being implemented across the Pacific Island nations that aims to build local capacity for disaster risk reduction and preparedness, and integrate climate resilient policies and practices into long-term land use plans and building standards. The policies developed through this initiative will serve as a positive signal to the public and private sectors that may be considering further LCCR infrastructure and project finance in the region.

Moving forward, the United States will continue to place special emphasis on working with developing countries to promote strong regulatory frameworks and national policies to attract international flows, mobilize domestic flows, and create the right institutional framework for domestic action. As noted above, our efforts represent one half of a partnership that also requires significant effort by developing countries to continue fostering strong enabling environments.

### Risk mitigation

The United States provides risk mitigation instruments to support LCCR investment through multiple channels (e.g. grant-based assistance, development finance, and export credit finance). As with technical assistance, application of specific risk mitigation tools is driven by country and region-specific circumstances.

The U.S. Overseas Private Investment Corporation (OPIC) has been one of the most innovative public finance institutions in the world in developing risk mitigation products to enable climate action. One of the innovative programs coordinated by OPIC is the U.S.-Africa Clean Energy Finance Initiative (ACEF). Recognizing that early-stage project development risks often jeopardize project bankability, ACEF seeks to address sub-Saharan Africa's acute energy needs by providing early stage project development support to ensure that renewable energy and energy efficiency projects reach financial close while also mobilizing significant private investment. \$20 million in grant-based financing from the State Department and project planning expertise from the U.S. Trade and Development Agency aims to catalyze up to \$500 million in financing from OPIC which would then leverage an additional \$500 million in private investment, leading to a \$1 billion impact. ACEF demonstrates how a very limited amount of grant-based public resources – when surgically applied – can catalyze a much larger pool of finance that can bring climate projects to fruition at scale.

USAID is also actively engaged in the development of risk management tools, including by piloting new insurance approaches to help poor farmers manage weather risks. In Senegal, for example, USAID is investing \$8 million in the R4 Rural Resilience Initiative, which will overcome cash constraints by

enabling the poorest farmers to pay for insurance with their labor by working on community risk reduction projects, such as improved irrigation or soil management.

Innovation in U.S. risk mitigation tools extends to sustainable landscapes as well. OPIC issued the first political risk insurance contract for a Reduced Emissions from Deforestation and Forest Degradation (REDD+) project in Cambodia, which will help protect 64,318 hectares of forest in Cambodia and sequester approximately 8.7 million metric tons of CO<sub>2</sub>e.

Going forward, the United States plans to deploy further innovative risk-mitigation solutions, such as feed-in tariff insurance, a form of political risk insurance.

#### Low-cost, long-tenor debt financing

Project finance at rates and/or tenors not otherwise available from private commercial lenders is provided through OPIC, the U.S. Export-Import (Ex-Im) Bank, and our contributions to multilateral development banks (MDBs). Financing support from these public institutions can make the critical difference in the viability of many LCCR investments in developing countries.

Under the Obama Administration, OPIC has become one of the world's largest financiers of clean energy projects in developing countries, deploying \$2 billion in project finance in this sector during the fast start period. Two new initiatives have been established that further scale up OPIC's activities in this area: the Global Climate Finance Facility, a Washington, D.C.-based team will work to forge partnerships to align OPIC's financing tools alongside major sources of private and institutional capital; and the Asia-Pacific Clean Energy Program, a clean energy business development initiative to be located in Bangkok.

Ex-Im Bank has scaled up its low-cost, long-tenor climate-related financing activities as well. In India, for example, it is estimated that Ex-Im Bank has financed over 30% of the solar energy projects completed under Phase 1 of India's National Solar Mission. Ex-Im Bank will continue to aggressively promote its financing support of clean and renewable energy-related exports.

The MDBs are expanding low-cost, long-tenor lending to LCCR projects and thereby attracting significant private sector co-financing. In fact, MDBs have significantly scaled up their climate financing activities.<sup>5</sup> The MDBs use grants, loans, guarantees, equity, and performance-based instruments to finance projects in, *inter alia*, energy efficiency, renewable energy, transport, agriculture, and forestry.

#### Viability gap financing

Concessional financing is provided through U.S. support for the multilateral climate funds such as the GEF and the CIFs, as well as through bilateral support. Grants and concessional loans can address the viability gap that may remain, even after targeted technical assistance, risk mitigation, and debt financing are provided. For instance, the Clean Technology Fund (CTF) catalyzes clean energy investments in emerging economies with rapidly growing emissions by providing concessional loans to projects in the areas of renewable energy, green growth, and energy efficiency in transport, industry, and agriculture. Working in 18 countries, the CTF has approved 41 projects for a total of \$2.3 billion.

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<sup>5</sup>For 2011 figures, see [http://climatechange.worldbank.org/sites/default/files/MMF\\_2011\\_version\\_21.pdf](http://climatechange.worldbank.org/sites/default/files/MMF_2011_version_21.pdf); <http://www.worldbank.org/content/dam/Worldbank/document/Joint%20MDB%20Report%20on%20Adaptation%20Finance%202011.pdf>

These funds have leveraged \$18.8 billion in co-financing including \$5.8 billion from the multilateral development banks and \$13 billion from other sources, and contributed to the saving of 525 million metric tons of CO<sub>2</sub>e.

Another example that highlights our current approach is our support for the Scaling-Up Renewable Energy Program (SREP) under the CIFs. SREP aims to scale up the deployment of renewable energy solutions and expand renewable markets in the world's poorest countries. Channeled through the MDBs as grants and near-zero interest loans, the SREP is country-led and builds on national policies and energy initiatives. To date, approved projects in Kenya, Nepal, and Honduras are using \$46 million in SREP funds to leverage \$562 million in co-financing and build 250 megawatts of sustainable energy capacity.

The approaches described above and tested over the last two decades will inform the design of the Green Climate Fund (GCF), which is expected to be a significant provider of financing for both mitigation and adaptation activities, including through its Private Sector Facility.

### **Focusing on adaptation**

The Obama Administration has made significant investments in bolstering the capacity of developing countries to respond to the impacts of climate change. Bilateral climate change adaptation assistance prioritizes countries, regions, and populations that are highly vulnerable to climate change impacts. By increasing resilience in key sectors such as food security, water resources management, coastal management, and public health, U.S. programs help vulnerable countries prepare for and respond to increasing climate and weather-related risks. U.S. assistance identifies and disseminates adaptive strategies; makes accessible the best available projected climate change impact and weather data to counterparts; and builds the capacity of partner governments and civil society partners to respond to climate change risks. Much of this assistance is programmed through USAID, which supports numerous programs aimed at increasing the resilience of people.

The United States is also supporting national adaptation planning in vulnerable countries. We view national adaptation planning as a necessary step to guide effective and efficient efforts to address medium- and long-term adaptation needs at the country-level. USAID has already provided support to national adaptation planning in Jamaica, Tanzania, and West Africa. In both Jamaica and Tanzania, USAID helped organize a multi-stakeholder workshop to identify adaptation priorities. In Ghana, USAID collaborated with the Economic Community of West African States (ECOWAS) to organize a regional workshop on adaptation planning for the coastal zone.

The United States's contributions to multilateral funds is a central component of our approach to providing adaptation finance. The U.S. is now one of the largest donors to the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), having contributed a total of \$120 million between FY 2010 and FY 2012. LDCF and SCCF projects have contributed towards making development policies and programs more resilient to climate change by reducing climate change vulnerability in key sectors such as agriculture, disaster risk management, and water resources management, among others.

Furthermore, the U.S. recognizes that adaptation and sustainable development are and should be inextricably linked. In addition to providing direct adaptation finance to vulnerable countries, the U.S. also seeks to mainstream adaptation into its broader development programs. Strengthening development outcomes by integrating climate change in programming, learning, policy dialogues and

operations is one of three strategic objectives of USAID's Climate Change and Development Strategy.<sup>6</sup> USAID is pursuing a set of integration pilots to increase the impact, effectiveness, and sustainability of development interventions by addressing climate-related risks, vulnerabilities, and opportunities in programs across multiple sectors such as agriculture, biodiversity, and democracy and governance. USAID has also been training its staff from a variety of sectors to increase their climate change expertise, including through trainings specifically on food security, water resources management, and adaptation.

### **Coordinating efforts and multilateral processes**

The United States has been working with our developed country partners to collectively develop and coordinate strategies for scaling up LCCR investment in developing countries. In April 2013, the United States hosted an inaugural meeting of climate ministers and senior officials from development and finance ministries to explore how we can work together more effectively by coordinating the use of our public resources to better mobilize private investment in climate action. The developed countries in attendance agreed to launch new coordinated work to strengthen the climate finance activities of public finance institutions, including development finance institutions, multilateral development banks, key multilateral climate change funds, and export credit agencies.<sup>7</sup>

For example, under the coordination of Germany development bank KfW and OPIC, senior leadership of 18 bilateral DFIs from developed countries met in Frankfurt on 3-4 September 2013 to discuss "Scaling-up the Green Economy". Bilateral DFIs have already significantly scaled up green economy financing in developing countries.<sup>8</sup> At their Frankfurt meeting, the institutions present committed to scale up their activities to contribute to the long-term finance goals agreed under the UNFCCC.

Similarly, export credit agencies from developed countries convened in Copenhagen on 19-20 September to consider how they can play an enhanced role in climate finance, and MDB representatives will meet with donor countries on the margins of the Annual Meetings of the World Bank and International Monetary Fund on October 12<sup>th</sup> to discuss the role of the MDBs in mobilizing private climate finance. Finally, the United States is working with a number of other countries, multilateral institutions, and private investors to explore the creation of a public-private platform aimed at defining and piloting the next generation of climate finance instruments.

While recognizing that coordination of donor countries alone does not constitute a full response to the long-term finance challenge, the United States believes it is a necessary component of any effective international strategy. This is why we will continue to play an active coordination role, including through the organization of a second ministerial meeting prior to COP-19 that will take stock of new work in each area described above.

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<sup>6</sup> For the full text of USAID's Climate Change and Development Strategy, see

[http://transition.usaid.gov/our\\_work/policy\\_planning\\_and\\_learning/documents/GCCS.pdf](http://transition.usaid.gov/our_work/policy_planning_and_learning/documents/GCCS.pdf).

<sup>7</sup> For a summary of this ministerial meeting, see <http://www.state.gov/e/oes/rls/remarks/2013/207420.htm>.

<sup>8</sup> For 2012 figures, see [https://www.kfw-entwicklungsbank.de/PDF/Entwicklungsfinanzierung/Umwelt-und-Klima/Konferenzen-und-Veranstaltungen/CPI\\_Brief\\_Survey\\_Green\\_Economy.pdf](https://www.kfw-entwicklungsbank.de/PDF/Entwicklungsfinanzierung/Umwelt-und-Klima/Konferenzen-und-Veranstaltungen/CPI_Brief_Survey_Green_Economy.pdf)



## **Reducing support for high-carbon investments**

Efforts to catalyze private green investment in developing countries are essential, but their impact on greenhouse gas emissions will be limited unless steps are taken to reduce public financing for highly carbon-intensive infrastructure.

To ensure consistency with our scaled-up finance for low-carbon energy sources, the United States is taking a leadership role in phasing down public financing for high-carbon energy sources. In June 2013, President Obama announced an end to U.S. government support for public financing of new coal power plants overseas, except for (a) the most efficient coal technology available in the world's poorest countries in case where no other economically feasible alternatives exist, or (b) facilities deploying carbon capture and sequestration technologies. As part of this new commitment, the U.S. is working to secure the agreement of other countries, export credit agencies, development finance institutions, and multilateral development banks to adopt similar policies as soon as possible. The World Bank, European Investment Bank, and the Nordic countries (Sweden, Denmark, Norway, Finland, and Iceland) recently announced similar policies. Furthermore, the U.S. remains committed to phasing out subsidies that encourage wasteful consumption of fossil fuels. President Obama's FY 2014 budget proposal eliminates domestic fossil fuel tax subsidies, and the United States continues to advocate internationally for this goal in the context of the technical sessions among DFIs, ECAs, and MDBs, the OECD, the G20 and other fora.

## **Conclusion**

The United States approaches the task of mobilizing long-term climate finance with the seriousness it deserves. In 2013, we laid the groundwork for an ambitious and wide-reaching set of efforts aimed at using public resources and smart public policies to catalyze low-carbon investment in developing countries. We are working more closely than ever before with the other Parties that jointly made the \$100 billion commitment, and we have dramatically expanded the range of partnerships with developing countries to design, test, and deploy the appropriate set of financial tools and enabling conditions needed to scale up action on adaptation, clean energy, and sustainable landscapes. Crafting a robust set of strategies and approaches for mobilizing climate finance is an ongoing effort that will require creativity, flexibility, and political will on the part of all countries as well as private sector and civil society stakeholders.